STATE OF CALIFORNIA GRAY DAVIS, Governor

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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TO ALL WATER AND SEWER SERVICE UTILITIES

It has come to my attention that various methods are being used to calculate the "incremental expense rate change" that is used to calculate the "expense component" that is booked to your balancing accounts. I remind you "balancing accounts maintained beyond the latest test year will use the latest adopted quantities." (Procedures for Maintaining Balancing Accounts, 1983, Attachment 1 page 1). The incremental expense rate change should therefore use the same tariff schedules and quantities that went into the test year calculation of the purchased power adopted quantities and the composite rate.

For example, in the last rate case you had two wells (1 and 2) under PG&E tariff schedule A-1. Well 1 operates summer and winter (summer rate $0.14870/kWh, winter rate $0.10193) and well 2 operates only during the summer (rate $0.14870). Well 1 used 500,000 kWh and 500,000 kWh in the winter and well 2 used 500,000 kWh in the summer. The adopted quantities would be:

Adopted kWh 1,500,000

Adopted Purchased Power cost			
Customer charge:	two wells at $20.10 per well per month times 12 months	= $	482
Energy charge:	Well 1		
Summer	500,000 kWh times $0.14870/kWh	=	74,350
Winter	500,000 kWh times $0.10193/kWh	=	50,965
	Well 2		
Summer only	500,000 kWh times $0.14870	=	74,350
Total			$ 200,147

Composite rate is $0.1334/kWh ($200,147/1,500,000 kWh)

In 2000 you replaced well 1 with well 3. Well 3 is super efficient and only requires 900,000 kWh to provide the same amount of water well 1 did. You also rebuilt well 2 so that it uses only 400,000 kWh to provide the same amount of water. Then in July 2001 the Commission approved schedule E-EPS that allowed PG&E to surcharge its summer rates by $0.06140 plus $0.01 or $0.0714/kWh and its winter rates by $0.02838 plus $0.01 or $0.03838/kWh. So now you are paying $0.14870 plus $0.07140 or $0.22010/kWh in the summer and $0.10193 plus $0.03838 or $0.14031/kWh in the winter. How do you calculate the new composite rate?

The answer is *you ignore well 3 and the rebuild you did to well 2.* The purpose of using an incremental offset and balancing accounts is to provide you with an incentive to improve. All that you save due to those improvements, you keep. Of course, the reverse is also true. If your efficiencies have fallen, your actual composite may have increased.